



Federal Deposit Insurance Corporation
Washington, D.C. 20429

Office of Inspector General

April 18, 1996

DETAILED AUDIT REPORT

OFFICIAL AUDIT RELEASE

MEMORANDUM TO: Teresa Koechel, Consolidated Office Director
Franklin Consolidated Office

FROM: David H. Loewenstein, Assistant Inspector General
Office of Liquidation Audits

SUBJECT: Audit of the Franklin Consolidated Office
Cost Center - 506

As a part of our responsibility for providing independent financial audits of closed banks for the Board of Directors, the Liquidation Financial Audit Branch has completed an audit of the Franklin Consolidated Office, in Franklin, Massachusetts. We reviewed 68 closed financial institutions consolidated into the Franklin Consolidated Office as of June 30, 1995, with assets having a total book value of approximately \$1.7 billion. The major responsibilities of the Franklin Consolidated Office are: conversion of related assets of the failed banks into cash at the most efficient and economical costs, and realization of the maximum recovery on the liquidation of these assets for distribution to creditors and shareholders. A draft report was issued to management on February 29, 1996. The audit was conducted by the Office of the Inspector General (OIG) with assistance from the staff of Eubank & Betts.

SCOPE AND OBJECTIVES

The scope of this audit included a review of: compliance with policies, procedures, and directives; the maintenance and liquidation of assets and liabilities; and the financial and operational activities at the Franklin Consolidated Office. The period of review was April 1, 1994 through June 30, 1995. Our audit objectives were to determine whether:

- the Franklin Consolidated Office was in compliance with delegated authority;
- liquidation operating procedures were properly followed;
- accounting procedures were followed and accounting transactions reviewed contained questioned, unsupported, or disallowed costs or funds that could have been put to better use;



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MEMORANDUM TO: Susan R. Brown, Financial Manager
Franklin Consolidated Office

FROM: David H. Loewenstein, Assistant Inspector General
Office of Liquidation Audits

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- the disposition of assets was in accordance with appropriate Corporate guidelines and an effective system was established by management for measuring and reporting on operational effectiveness;
- the system of internal controls adequately safeguards assets and ensures the reliability of the financial records;
- the Franklin Consolidated Office was in compliance with laws and regulations for transactions and events that may have a material effect on the financial statements; and
- the financial statements present fairly the financial position and results of the operations.

Our audit was conducted in accordance with generally accepted government auditing standards.

CONCLUSIONS

The results of our audit are summarized below. A detailed discussion of each condition and recommendation is presented in the Conditions, Recommendations and Auditee Responses section of the attached audit report. We also noted other matters involving the internal control structure and its operations that we have reported to the Franklin Consolidated Office management in a separate letter.

Audit Objectives

Delegated Authority - Compliance with delegated authority by the Franklin Consolidated Office was very good. No exceptions were noted.

Liquidation Operating Procedures - Adherence to liquidation operating procedures was adequate. Conditions regarding liquidation operating procedures and data integrity are described in the Conditions, Recommendations, and Auditee Responses section of the attached audit report.

Accounting Records and Procedures - Adherence to established accounting procedures and the manner in which the accounting records were maintained by the Franklin Consolidated Office was good. Conditions regarding accounting records and procedures are described in the Conditions, Recommendations, and Auditee Responses section of the attached audit report.

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Disposition of Assets and Operational Effectiveness - The disposition of assets and management's system for measuring and reporting on operational effectiveness was good. Conditions regarding the disposition of assets and operational effectiveness are described in the Conditions, Recommendations and Auditee Responses section of the attached audit report.

Internal Controls Over Liquid Assets - Our study and evaluation indicated that the system of internal controls over liquid assets at the Franklin Consolidated Office was very good. No exceptions were noted.

Prior Audit Conditions: The resolution of previously reported audit conditions and recommendations for the Franklin Consolidated Office was only fair. We reviewed eleven audit conditions and determined that recommended corrective action had been completed for five of the conditions. The remaining six conditions and recommended corrective actions are in the process of being completed or implemented and are discussed in the Conditions, Recommendations, and Auditee Responses section of the attached audit report.

Compliance with Laws and Regulations - In accordance with GAO standards, potential lack of compliance with applicable laws and regulations in activities reviewed is to be identified and reported. Our tests for compliance with significant provisions of certain laws and regulations disclosed no instance of noncompliance that would be reportable under generally accepted government auditing standards.

Our opinion on the financial statements and evaluation of the internal control structure, in conformity with GAO standards, are provided in a separate report in the attached audit report. In planning and performing our audit of the financial statements of the Franklin Consolidated Office, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Condition numbers 1 through 11 discussed in this report are considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

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A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we noted no reportable conditions which we consider to be material weaknesses.

In our opinion, the combined statement of assets, liabilities and accumulated deficit as of June 30, 1995, and the related combined statement of revenues and expenses for the fifteen months ended June 30, 1995, present fairly, in all material respects, the receiverships being administered by the Franklin Consolidated Office, location 506, of the FDIC , in conformity with the basis of accounting described in Note 1 to the combined financial statements.

AUDIT PROCEDURES

Audit procedures included, but were not limited to: reconciling FIS accounts to site general ledger control and subsidiary accounts; examining selected accounts to determine the appropriateness of the balances; reviewing and testing the system of internal controls; and testing cash receipts and cash disbursements.

DIVISION OF FINANCE - CONDITIONS AND RECOMMENDATIONS

COMPLIANCE DEFICIENCIES

Conditions 1 and 4 address lack of compliance with accounting procedures and other requirements.

DIVISION OF DEPOSITOR AND ASSET SERVICES - CONDITIONS AND RECOMMENDATIONS

COMPLIANCE DEFICIENCIES

Conditions 2, 3 and 5-11 address lack of compliance with operational procedures and other requirements.

Attachment